

Message Text

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TO AMEMBASSY BRASILIA PRIORITY

INFO AMEMBASSY BOGOTA

AMEMBASSY LONDON

AMCONSUL RIO DE JANEIRO

AMEMBASSY SAN SALVADOR

AMCONSUL SAO PAULO

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E.O. 11652: N/A

TAGS: EAGR, ETRD

SUBJECT: COFFEE: RECENT DEVELOPMENTS IN NEW YORK MARKET

REFS: BRASILIA 6165, BRASILIA 6254, SAN SALVADOR 3519,
STATE 177412, STATE 177404, STATE 177407

1. SUMMARY. ON JULY 18, THE NEW YORK COFFEE AND SUGAR
EXCHANGE EXTENDED BY ONE DAY FROM JULY 22 TO MONDAY,
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JULY 25 THE DEADLINE FOR TRADING ON THE JULY "C" COFFEE
CONTRACT. THIS WAS DONE TO MAKE UP FOR THE DAY LOST
TO TRADING FROM THE NEW YORK BLACKOUT ON JULY 14. IN
THE BACKGROUND, HOWEVER, WAS THE CONCERN BY THE COMMODITY
FUTURES TRADING COMMISSION (CFTC) THAT ENOUGH GREEN
COFFEE WOULD BE AVAILABLE FOR DELIVERY ON THE CONTRACTS.
END SUMMARY.

2. THE PROBLEM AROSE DUE TO THE LARGE NUMBER OF COMMITMENTS TO PURCHASE COFFEE (LONG POSITIONS) HELD BY THE SALVADORAN COFFEE COMPANY ON THE JULY CONTRACT. CONCERNED ABOUT PRICE MANIPULATION AND POSSIBLE DEFAULT, THE NEW YORK COFFEE AND SUGAR EXCHANGE BOARD TOOK EMERGENCY ACTION. ON JUNE 28, IT ORDERED TRADING FOR LIQUIDATION

ONLY AND NEW SELLING ONLY BY THOSE WHO HAD COFFEE TO DELIVER.

3. THIS STEP WAS NOT SUCCESSFUL. AS OF JULY 11, THE SALVADORAN COFFEE COMPANY HELD 87 PERCENT OF THE PURCHASE CONTRACTS FOR JULY AND INFORMED THE CFTC THAT IT INTENDED TO TAKE DELIVERY ON ALL THESE CONTRACTS FOR JULY. IT ALSO WAS BELIEVED TO HOLD A LARGE SHARE OF THE CERTIFIED STOCKS ALREADY DELIVERED ON THE JULY FUTURES AND ON PREVIOUS ONES. THE COMPANY WAS OFFERING SOME COFFEE TO THE SHORTS (THOSE WITH COMMITMENTS TO DELIVER) BUT AT A PRICE ABOVE THE PREVAILING MARKET LEVELS. IT WAS THUS IN THE POSITION OF TENDERING ITS OWN COFFEE SO THAT SELLERS COULD HAVE COFFEE TO RETURN TO THE COMPANY IN FULFILLMENT OF THEIR CONTRACTS.

4. THE CFTC HAD MONITORED THESE DEVELOPMENTS AS PART OF ITS NORMAL MARKET SURVEILLANCE PROGRAM. IT TOOK TWO LIMITED OFFICIAL USE

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STEPS. FIRST, IT ISSUED A SPECIAL CALL TO THE SALVADORAN COFFEE COMPANY FOR INFORMATION. IT ISSUED ANOTHER CALL AFTER NO RESPONSE HAD BEEN RECEIVED BY JULY 12. THIS ONE STATED THAT IT WOULD BE UNLAWFUL FOR THE COMPANY TO TRADE ON ANY U.S. CONTRACT MARKET UNLESS IT FURNISHED THE INFORMATION REQUESTED. THE SECOND STEP TAKEN BY THE CFTC WAS TO APPROACH THE COFFEE EXCHANGE OFFICIALS. IT URGED THEM TO ASSURE THE ORDERLY LIQUIDATION OF THE JULY CONTRACT, THREATENING A FORCED LIQUIDATION IF THE EXCHANGE'S ACTIONS WERE NOT EFFECTIVE.

5. ON JULY 18, RICARDO FALLA, DIRECTOR OF THE SALVADORAN COFFEE COMPANY, MET WITH CFTC OFFICIALS IN WASHINGTON AND THE FOLLOWING DAY WITH EXCHANGE OFFICIALS IN NEW YORK. HE CLAIMED THAT HE WAS BUYING COFFEE ON THE NEW YORK EXCHANGE TO FULFILL HIS CONTRACT TO SELL SOME 300,000 BAGS OF COFFEE TO BRAZIL. HIS EXCUSE FOR HAVING TO ENTER THE NEW YORK MARKET WAS THAT HE COULD NOT USE EL SALVADOR'S COFFEE WITHOUT SACRIFICING ITS FUTURE EXPORT QUOTA UNDER THE INTERNATIONAL COFFEE AGREEMENT. THE U.S., HE ASSERTED, HAD INSISTED THAT NO COFFEE SOLD TO ANOTHER EXPORTING MEMBER COULD COUNT TOWARD THE SELLING

COUNTRY'S QUOTA.

6. THE EXCHANGE RESPONDED TO THE CFTC'S INITIATIVE BY SENDING A LETTER TO ITS CLEARING MEMBERS REQUESTING LIQUIDATION OF OPEN CONTRACTS. WHAT BROKE THE DEADLOCK, HOWEVER, WAS MOVEMENT OF COLOMBIAN COFFEE. TRADERS HAD ALREADY LARGELY ANTICIPATED COLOMBIA'S ANNOUNCEMENT

ON JULY 12 TO LOWER ITS REINTEGRO, OR THE DOLLARS EXPORTERS MUST REPATRIATE ON COFFEE SALES. A SECOND ANNOUNCEMENT REDUCING THE REINTEGRO STILL FURTHER ON JULY 16 TOOK THEM BY SURPRISE. PROSPECTS OF NEW SUPPLIES OF COLOMBIAN COFFEE MOVING INTO THE MARKET ALLOWED ROASTERS TO TURN COFFEE BACK TO THE TRADE FOR LIQUIDATION OF LIMITED OFFICIAL USE

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THE JULY CONTRACT. COLOMBIA HAS SINCE STATED THAT IT WOULD BE OUT OF THE MARKET AFTER A LARGE SALE TO EASTERN EUROPE, BUT THE TRADE HAS ITS DOUBTS.

7. THE DECISION TO EXTEND THE TRADING PERIOD ONE DAY WAS A RESULT OF THE NEW YORK BLACKOUT ON JULY 14. THIS, NOT THE CFTC'S CONCERNS, WAS THE REASON FOR THE DECISION. ENOUGH COFFEE HAD BECOME AVAILABLE FOR DELIVERY TO FULFILL THE CONTRACT. HAD THE BLACKOUT NOT SUSPENDED TRADING FOR A DAY, THE EXCHANGE WOULD NOT HAVE NEEDED TO EXTEND THE CONTRACT. THE EXTRA DAY SIMPLY ALLOWED THE CONTRACT TO TRADE ITS NORMAL DURATION.

8. THE EPISODE IS NOT OVER YET. THE CFTC REMAINS CONCERNED ABOUT THE SEPTEMBER CONTRACT. FALLOUT FROM ITS INVESTIGATION SO FAR INCLUDES A SUBPOENA SERVED ON THE BANK OF BRAZIL ON JULY 27 FOR INFORMATION ON A COFFEE PRICE DEFENSE FUND SET UP IN 1974. HOWEVER, SEVERAL POINTS SHOULD BE KEPT IN MIND IN RESPONDING TO INQUIRIES: THE NEW YORK COFFEE AND SUGAR EXCHANGE EXTENDED THE TRADING PERIOD ON THE JULY CONTRACT FOR ONE DAY ONLY; THE DECISION FOR THIS WAS MADE TO COMPENSATE FOR THE DAY LOST FROM THE NEW YORK BLACKOUT, NOT TO INTERVENE IN THE MARKET; AND THE STATE DEPARTMENT HAD NO PART IN THE EXCHANGE'S DECISION. CHRISTOPHER

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